

Lesson 23: Credit for Child and Dependent Care

Does Vanessa qualify for the Child and Dependent Care credit?

Bella, Zoe, and Zachary are Vanessa's three dependent children. Let's determine if Vanessa is eligible for the child and dependent care credit by using the Can You Claim the Credit for Child and Dependent Care Expenses? decision tree in the Volunteer Resource Guide (Tab G).

Sample interview clarifying Child and Dependent Care credit

SAMPLE INTERVIEW	
VOLUNTEER SAYS...	VANESSA RESPONDS...
<i>Did you pay for child care during the tax year?</i>	Zach attends a free after-school program. My mom watches Bella all day and she watches Zoe most of the time; Zoe goes to preschool one day a week.
<i>You may be able to take the credit for child and dependent care expenses. Let me go over a couple of things with you. I already know that your three dependent children are under 13, so they qualify.</i>	Okay.
<i>And I know that you have earned income because you work in a department store. Did you pay for child care so that you could go to this job?</i>	Yes.
<i>And Zoe's day care provider is not a relative, correct?</i>	The preschool is not. I don't have to pay my mom.
<i>We already know that you are filing as Head of Household, and meet the conditions of "unmarried" for tax purposes. Did you bring the name, address, and tax identification number of the provider with you?</i>	Yes, I did.
<i>What were your child care expenses for the year?</i>	Well, I pay the preschool \$125 a month, so that would be \$1,500 for the year.
<i>Does your company provide any dependent care benefits?</i>	No.
<i>Well, your expenses definitely qualify. Now all we have to do is figure out the amount of your child and dependent care credit.</i>	Great! Thanks for your help!

Based on your findings during the interview, you make the following note on Vanessa's approved intake and interview sheet. In Part V, Item 9 you write \$1,500.

<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	4. Classroom supplies if you are a teacher
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	5. Medical expenses \$2,109
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	6. Home mortgage interest
<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	7. Real estate taxes for your home
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	8. Charitable contributions \$200
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	9. Child/dependent care expenses that allowed you and your spouse, to work or to look for work \$1,500

How do I compute the child and dependent care credit?

Vanessa qualifies for the child and dependent care credit. Use Form 2441, available on www.irs.gov, to calculate the amount of the credit. Vanessa paid Koala Bears Day Care (EIN 82-1111111) \$1,500 for the tax year. Koala Bears is located at 456 Chapman Avenue in Denver, Co 80202.

Based on Vanessa's Adjusted Gross Income, her maximum credit is computed at 26% (.26) of her allowable expenses, so her credit can be as high as \$390.

This amount is compared to Vanessa's tax. Since her tax is greater than the child and dependent care credit in this scenario, the tax software has calculated Vanessa's child and dependent care credit as \$390. This amount is entered on her Form 1040. Vanessa's completed Form 2441 is in Appendix B.

TIP

Vanessa's employer did not provide any dependent care benefits for her child. Therefore, you do not have to complete Part III of Form 2441 for Vanessa. Vanessa brought the daycare provider's information.



Tax Software Hint: To review information related to the software, go to the Volunteer Resource Guide (Tab 5).



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